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Colombia and Venezuela Negotiating Free Trade Agreement

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Trade Policy Incident Report

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Report Highlights:

The Colombian and Venezuelan Presidents met in August to reestablish diplomatic and trade relations following after Venezuela severed ties with Colombia in 2009. Foreign affairs ministers from both sides are working to resolve two major issues: the outstanding Venezuelan debt with Colombian industry and fast-track implementation of a free trade agreement before current CAN trade preferences expire. A Colombia-Venezuela FTA would likely result in a larger market for feed grains for Colombia's poultry industry, one that will be divided between the US, Argentina, and Brazil. The US's ability to compete for this market depends on the ratification of the FTA in Congress.

General Information:

The Colombia-Venezuela free trade agreement is a priority for both governments once Venezuela officially pulls out of the CAN, which is expected to take place on April 22, 2011. The first negotiation of this FTA will be held during the second week of November in Caracas, where government representatives will report on the status of cooperative production between the two countries, as well as efforts to reduce smuggling and increase foreign investment.

For the past two years, trade between Colombia and Venezuela has decreased substantially. Exports declined 76% between January and May 2010 compared to the same period in 2009, due to Venezuela's decision to sever trade relations with Colombia. The new Colombian government has prioritized the restoring of relationships with its neighbors and the first step was a meeting with the Venezuelan President on August 13.

The \$800 million in debt owed to Colombian exporters is a major stumbling block for the FTA. The Venezuelan office of Foreign Affairs committed to pay a portion of this debt and has already paid \$200 million of it to Colombian industries such as airlines, insurance companies, pharmaceuticals and chemicals, which were stated as a priority for repayment by the Colombian government. The Colombian Exporters Association considers this a good start but wants to settle the full \$800 million and establish a legal framework that protects both parties in future transactions.

The implementation of the Colombia-Venezuela FTA is expected to increase Colombia's consumption of feed grains, especially the corn and soymeal that will be used to bulk up its poultry exports to Venezuela. When Venezuela cut trade ties with Colombia in 2009, 17 percent of Colombian poultry production was being sold to Venezuela. Since then, the industry has sought out new markets for Colombian poultry in Asia and the Caribbean. In addition, domestic demand has increased with supply and lower prices. If the FTA between Colombia and Venezuela transpires, it will result in a bigger market for poultry and poultry feed than what existed in 2009, which will be divided between the US, Argentina, and Brazil. The US's ability to compete for this market depends on the ratification of the FTA in Congress.